

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

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SUBJECT: Fixed Income -  
Home Loan Program Report

ITEM NUMBER: 10

ATTACHMENT(S): 2

ACTION: \_\_\_\_\_

DATE OF MEETING: June 2, 1999

INFORMATION: X

PRESENTER(S): Ms. Cunningham  
Mr. Shantic

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**EXECUTIVE SUMMARY**

One of the 1998/99 objectives approved for the Investment Branch is to revitalize CalSTRS' Home Loan Program (HLP) within the legislative mandates. As a first step in that process, staff presented a Business Plan for the HLP to the Investment Committee in September 1998 and in April 1999 the Investment Committee approved the updated HLP Policy Manual.

Attachment 1 represents a report that summarizes the progress that has been made toward that revitalization objective for the Home Loan Program since July 1, 1998. Included within the report is a comparative analysis of loan production, a review of the mortgage loan rates, a report on the net contribution to operations, and an update on the major tasks contained within the action plan portion of the Business Plan.

In summary:

- Loan production and funding levels are somewhat higher this fiscal year as compared to last, with 186 loans being originated, amounting to \$33.1 million. HLP volumes are down, however, for the most recent quarter. This can be partially attributed to the higher interest rate environment.
- Loan rates were either at or just above the market average for both 15 and 30-year mortgage loans.
- Net Contribution to Operations amounted to \$3.4 million, using the Liquidity Portfolio yield as the cost of funds, or \$3.6 million, using the 5-year U. S. Treasury yield as the cost of funds.
- Tasks associated with the revitalization of the HLP, such as the integration of new Correspondent Lenders and the development of a new CalSTRS HLP website are on schedule. In addition, staff has been in discussions with the California Housing Loan Insurance Fund (CaHLIF) as to a possible joint program (See Attachment 2).

## **EXECUTIVE SUMMARY**

As shown below, production for the CalSTRS HLP is up 23.1% from the same period last year. The number of loans originated increased from 186 loans to 229. In terms of volume, \$33.1 million in loans were funded, representing a 36.4% increase over the same time period the previous year. HLP volumes are down, however for the most recent quarter. This can be partially attributed to the higher interest rate environment. Since inception of the program, the CalSTRS HLP has originated approximately 21,000 loans amounting to more than \$2.4 billion.

### **Home Loan Production Comparison**

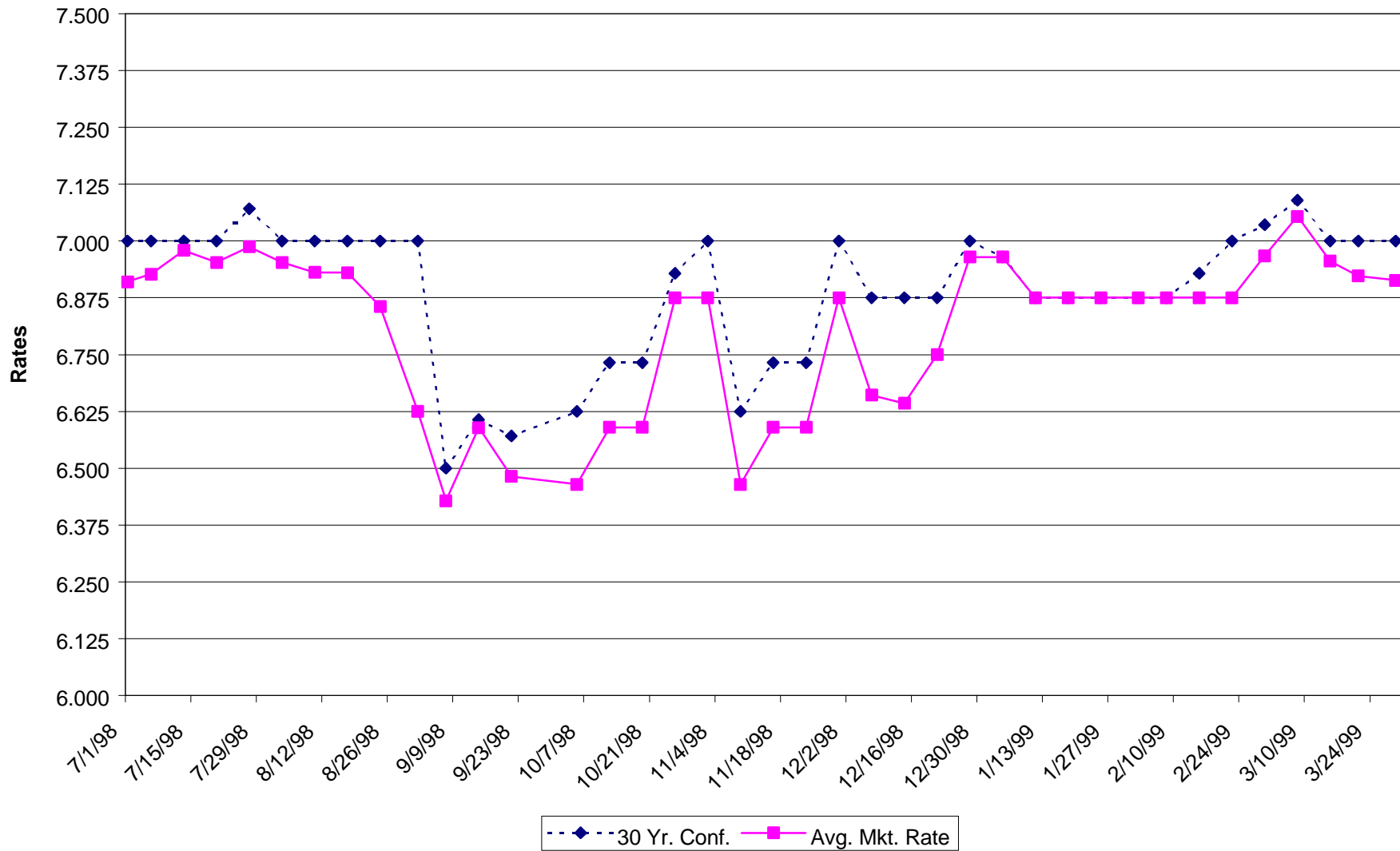
	<u><b>1997-98</b></u>	<u><b>1998-99</b></u>	
	# of Loans	# of Loans	% Change
Fiscal Year to Date (July – March)	186	229	23.1%
	\$ Amount	\$ Amount	% Change
Fiscal Year to Date (July – March)	24,305,582	33,152,185	36.4%

Long-term interest rates began to rise in mid-February, leaving mortgage rates at the higher end of the range. CalSTRS' Mortgage Loan rates during that period were either at or just above the market average for both 15 and 30 year mortgage loans (see pages 2 & 3 of this report). **At no time were CalSTRS' HLP Mortgage Loan rates below market.**

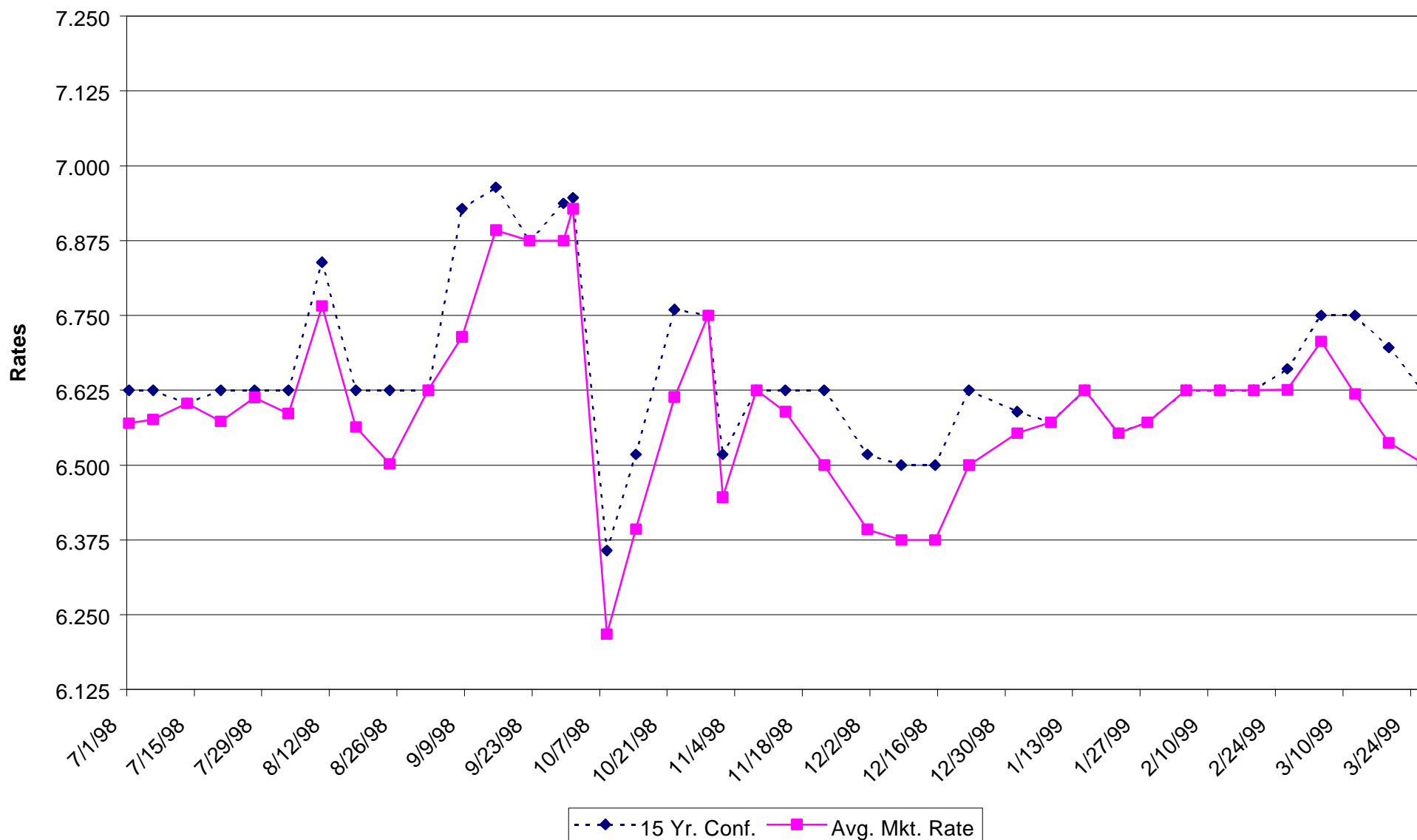
In terms of the financial contribution for the period (see page 4), the HLP posted a net contribution to operations of \$3,445,879 using the Liquidity Portfolio yield as the cost of funds. For comparison purposes, using the average yield of the five-year U.S. Treasury (i.e., a similar duration instrument), the net contribution was \$3,616,235.

As the table on page 5 demonstrates, the HLP is progressing in accordance with the activities described within the HLP Business Plan presented in September 1998. It is anticipated that the program will add up to ten Correspondent Lenders to the HLP by June 1999, and up to another ten later this summer. In addition, staff has begun discussions with the California Housing Loan Insurance Fund (CaHLIF), the insurance arm of the California Housing Finance Agency (CHFA), regarding possible cross-programmatic applications. Finally, the CalSTRS website will be getting a revised HLP description by June.

### 30-YEAR MORTGAGE LOAN RATES



## ~~15-YEAR MORTGAGE LOAN RATES~~



## **HLP FINANCIAL CONTRIBUTION**

Although there is no generally accepted performance measurement standard to judge the HLP, the following analysis identifies the program's net contribution to operations taking into account the cash flow, cost of funds, excess servicing and any gains or losses taken as a result of the sale of securities from the portfolio. The first table shows the financial contribution using the Liquidity Portfolio yield as the cost of funds while, for comparison purposes, the second table shows the same data using the 5-year U.S. Treasury (UST) yield as the cost of funds.

<b><u>Financial Report</u></b>	<b><u>7/1/98 to 3/31/99</u></b>
Coupon Income	11,431,118
Cost of Funds (Liquidity Yield)*	<u>(8,564,551)</u>
Net Interest Margin	2,866,567
Excess Servicing fee	644,476
Recognized Gain/Loss	(65,164)
Net Contributions to Operations	<u>3,445,879</u>

\* Reflects the Liquidity Portfolio yield as the cost of funds.

<b><u>Financial Report</u></b>	<b><u>7/1/98 to 3/31/99</u></b>
Coupon Income	11,431,118
Cost of Funds (5-year UST yield)*	<u>(8,394,195)</u>
Net Interest Margin	3,036,923
Excess Servicing fee	644,476
Recognized Gain/Loss	(65,164)
Net Contributions to Operations	<u>3,616,235</u>

\*Reflects the 5-year UST yield as the cost of funds.

## **ACTION PLAN**

In September 1998, the Investment Committee reviewed the 1998/99 Business Plan for the HLP, which included a strategy for accomplishing the program's objectives. Following are the specific activities identified within that plan, along with the target completion dates and current status.

	<u>Target Date</u>	<u>Status</u>
Transition with Real Estate staff	Aug. - 98	Completed
Present the HLP Business Plan.	Sept. - 98	Completed
Evaluate the current rate structure in order to determine the competitiveness of the product.	Sept. - 98	Completed
Develop a policy manual	Oct. - 98	Completed
Develop procedures manual.	Oct. - 98	Completed
Prepare/Release RFI for additional Correspondent Lenders	Dec. - 98	Completed
Evaluate RFI responses and select new participants.	Jan. - 99	Completed
Integrate new Correspondent Lenders into the HLP.	Feb. - 99	In progress
Analyze implementation issues associated with the Personal Loan option.	Ongoing	
Present Personal Loan option implementation alternatives and recommendations.	Mar. - 99	Completed
Enter into discussions with other organizations as to possible cross-programmatic applications.	Ongoing	
Develop and update marketing brochures and materials.	Ongoing	